



RESOURCES DIRECTORATE INTERNAL AUDIT SECTION

Internal Audit Progress Report 2018/19 (as at 31st December 2018)

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INTERNAL AUDIT PROGRESS REPORT

1. INTRODUCTION

1.1 Background

The Internal Audit plan for 2018/19 was approved by the Audit Committee at its meeting in March 2018. The plan provides the framework for audit work in the forthcoming year and is aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year.

The Internal Audit plan for 2018/19 is made up of a total of 2,706 days, with a total of 2,100 chargeable days for the audit team being agreed.

This report serves to provide an update on progress against the plan to 31st December 2018.

1.2 Independence and objectivity

Until 30th September 2018, the Internal Audit section reported directly to the Head of Finance as Acting Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence was maintained as the Head of Finance has reported functionally to the Audit Committee for audit-related matters. For all other matters, the Head of Finance has reported to the Corporate Director, Resources. There were no impairments of independence or objectivity.

From 1st October 2018, an Audit Manager has been in post to manage the Internal Audit section. The Audit Manager is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. These reporting lines were formalised through the approval of interim changes to the Audit Charter at the Audit Committee meeting on 13 November 2018.

1.3 Continuing Professional Development

Personal review objectives for 2018/19 were discussed and agreed with the members of the team by the end of June 2018, with training and development objectives identified and taken into account in the allocation of training courses this year.

The six month personal reviews for 2018/19 were held with the team to discuss progress against agreed objectives, determine whether any revisions to these objectives are required, and to identify relevant training needs. These reviews were completed within the Council deadline of 30th November 2018 and reinforced expectations and focus on internal audit quality and output. The draft Audit Charter 2019/20 includes an ‘output focussed and quality controlled’ performance management approach as a core component of the Quality Assurance and Improvement Programme (QAIP). The Draft Charter 2019/20 is included in agenda item 10.3, with the QAIP which has been operational from October 2018 included in Appendix E of that item.

Members will be aware that four auditors are being supported to become certified members of the Institute of Internal Auditors (IIA). One auditor sat the Part 2 exam in December 2018 and was successful, which means that two of the team are now working towards the Part 3 (final) exam and two are working toward Part 1.

2. **SUMMARY OF WORK PERFORMED**

2.1 Current Activities

The report to Audit Committee in March 2018 set the scene for audit coverage for the year and planned assignments have been set up in the audit planning, monitoring and control database. Priority was given to any audits planned for 2017/18 but not completed during that year.

All auditors continue to be allocated three months’ work at the end of the previous quarter with an expectation their assignments will be effectively managed and delivered within that time scale. This approach focuses on outcomes, and improving the timeliness of audit reporting.

Appendix A shows the list of audit reports issued from April to 31st December 2018. This includes assignments carried forward from 2017/18, which were prioritised accordingly in this year’s plan.

The opinions given in reports issued to 31st December 2018 are shown below.

	Number of reports	Opinion				Other work undertaken
		Effective	Effective with opportunity for improvement	Insufficient with major improvement needed	Unsatisfactory	
Draft reports issued	20	1	10	5	2	2
Final reports issued	57	10	20	10	2	15
TOTAL	77	11	30	15	4	17

Further to the table above, the 'other work undertaken' comprised the following:

	Audit	Comments
1.	Rent Smart Wales	Provision of training
2.	Asset Management	Briefing paper
3.	Commercial Waste Recycling Centre	Briefing paper
4.	Whitchurch High School	Briefing paper
5.	Social Services – care packages	Consultation assignment
6.	Gatehouse	Briefing paper
7.	Review of banking arrangements - Shirenewton	Briefing paper
8.	Stock control at Lamby Way	Consultation assignment
9.	Income at Lamby Way	Consultation assignment
10.	Ysgol Coed y Gof	Advice and guidance
11.	Training on revised Contract Standing Orders and Procurement Rules	Training provided to Council officers
12.	Discretionary grants	Briefing paper
13.	NFI 2016	Review of data matches from NFI exercise 2016
14.	Insurance	CRSA
15.	Council Tax	CRSA
16.	Creditor payments and processing	CRSA
17.	Use of legal advisers	Consultation assignment

2.2 Annual plan

The annual audit plan was agreed by Audit Committee at its meeting in March 2018 and was based upon the assurance mapping exercise, which is carried out at periodic intervals during the preceding year. The PSIAS (2010) requires the risk-based plan to take into account the organisation's assurance framework with the work of internal audit addressing both local and national issues.

In developing the annual plan, sources of assurance from within and outside the Council are considered, to enable informed decisions to be taken on the audits required. The process of 'assurance mapping' (using the 'three lines of defence' model) also captures emerging risks and issues as they arise during the year, so that the plan can be adapted where appropriate during the year. These changes are brought to the Audit Committee as they arise.

At the mid-year position, the annual plan was reviewed to determine the most appropriate use of unallocated audit days for general assurance and value for money audit purposes. These proposed changes were reported to the last meeting of the Audit Committee on 13 November 2018, and **Appendix B** shows the audit plan as at 31st December 2018. Further information on the delivery of the audit plan is included within *Section 3.2 - Performance and Benchmarking*.

2.3 Critical findings or emerging trends

In accordance with the PSIAS, Internal Audit is required to report to Audit Committee on critical findings or emerging trends and, based on the work undertaken since the last audit progress report, these details are provided below.

Following Audit Committee notification in the progress report on 13 November 2018 of the draft findings of an audit of catering income in school kitchens, the audit has now been finalised with an assurance opinion of *unsatisfactory* and, accordingly, an executive summary has been prepared and is attached in **Appendix C**. The report considered there were unsatisfactory controls for budget and income monitoring, resulting in delays in identifying and recovering debt and leading to an accumulation of arrears. The audit recommendations have been agreed with management in the Education and Lifelong Learning Directorate.

Some draft reports have raised compliance and control issues this quarter, with two draft unsatisfactory assurance ratings allocated. A draft report has been issued in respect of Pontprennau Primary School, also with an assurance opinion of *unsatisfactory*. It is considered that strengthening of governance is needed, with it being recommended that the Governing Body improves its oversight and challenge of both delegated budget and private fund activities. Improvements are also required in the financial controls at an operational level. The findings are currently being considered by the Headteacher and Governing Body. An executive summary will be presented to Audit Committee following the issue of the final report.

Following the introduction of the school governance mechanism, as considered by Audit Committee on 13 November 2018, it is proposed that the Director of Education and Lifelong Learning attends the meeting of the Audit Committee in June 2019 to report on the assurances in place and the actions taken for school audits where particular concerns have been identified.

Audit Committee will be mindful of the work that is being carried out in Waste Management within the Planning, Transportation and Environment directorate and **Appendix D** to this report includes a briefing paper on the assurance and consultancy work recently carried out by internal auditors, along with information on the work to be undertaken in quarter four. The briefing paper reports that five draft Waste Management audit reports have been issued in quarter three with one audit in respect of Lamby Way Stores providing a draft unsatisfactory audit opinion. Two of the Waste Management assurance reports recognised the presence of fundamental controls, but identified areas of major improvement, in the areas of income and banking control procedures and acting up and overtime payments at Lamby Way. These reports are being discussed and considered with management.

The audit of Lamby Way Stores considered that ongoing stock discrepancies identified across stock categories are indicative of an inconsistent application of core processes to ensure all transactions in and out of the stores are accurately recorded. Audit Committee will receive an Executive Summary on this audit following the issue of the final report. Meetings have commenced with management to discuss the Lamby Way Stores audit and, to provide further assurance, it has been agreed that Internal Audit will be present to observe the year-end stock check process.

Three further draft reports have recognised a need for major improvement this quarter, comprising Safeguarding, Purchasing Cards and County Hall Canteen. In respect of Safeguarding at a corporate level, a significant level of policy development and Council engagement has been recognised, for which a prudent audit opinion has been allocated in recognition of the importance of effectively embedding these arrangements. The audit of Purchasing Cards has recommended the development of a corporate policy for all p-card users to underpin the Council's user guide and support consistent practices, and has recognised a need to improve the timeliness of receipting and approving transactions and some aspects of monitoring. The Audit of County Hall Canteen has been undertaken to provide early assurance and advice on the systems operated in respect of the Youth Foods initiative. The audit has been welcomed by management, which has made recommendations to strengthen income, stock management and procurement processes, at a time when operations are in relative infancy.

2.4 Resources and training received

Audit Committee has had the opportunity to consider the budget proposals for 2019/20, and has received the opinion of the Audit Manager on the delivery of the audit function with the savings proposed, upon which the Draft Audit Plan has been prepared in agenda item 10.3. The saving proposal of £62,000 for the 'reduction of audit resource' for 2019/20 has two components and represents a continuation of the level of resources currently in place for future years at the operational level.

The first component of the saving relates to the formalisation of reduced hours for a member of the Internal Audit Team, and the second element relates to the deletion of a Principal Auditor post, which has been vacant this year whilst the post holder has been on a period of Secondment.

The comments received from Audit Committee Members to the Audit Manager on the proposals and explanations given have been of suitable assurance that there are sufficient resources for the delivery of a comprehensive audit service. Comfort is also taken from the appointment of a full-time audit manager from October 2018. This follows a period of oversight by the Head of Finance as a part of a wider portfolio of responsibilities over the last two years and represents an increase in support for delivering the Internal Audit role.

To provide development for a member of the audit team through shadowing arrangements, and to supplement the delivery of the audit plan 2018/19, a procurement exercise has been undertaken for the delivery of two ICT-related audits. These audits of IT Governance and Cloud Computing are scheduled for delivery within the final quarter of 2018/19.

There were 1,940 days coded on auditor timesheets as at 31st December 2018, against a pro-rata plan of 2,030 days. Of this, 1,255 days have been chargeable to audits (65%) and 37 related to non-audit duties (including Trades Union duties).

The Audit team supports the Welsh Chief Auditor Group training programme co-ordinated by colleagues in Newport Council but, so far in 2018/19, the programme has not yet been fully developed. No formal training has been undertaken in Q3 since the last report to Audit

Committee, but the Audit team has undertaken the mandatory Corporate training modules, including those on cyber security.

3. AUDIT PERFORMANCE AND ADDED VALUE

3.1 Added value

Relationship Manager meetings have been arranged with every Director and diarised for quarterly meetings throughout 2018/19. These are useful in progressing matters relating to audits completed and planned, and for discussing corporate and directorate risks, issues and areas for potential audit input. Senior members of the team also meet regularly with officers in directorates to discuss recommendations made and other issues for audit input.

Audit has issued 41 client questionnaires to 31st December 2018 and has received 27 responses (a response rate of 65.85%). One question asked of clients is whether they considered that the audit work added value to their service, and 77% of the respondents thought that the audits added value. The response of 'no' received since the last progress report related to a report where the client was aware of gaps in governance processes, and was in the process of improving procedures with the partner organisation.

In the reports issued to date, there have been a total of 724 recommendations made to audit clients. **Appendix E** shows the red and red / amber recommendations that are not yet complete (including those that have not yet reached their proposed action date), and the RAG ratings for these are summarised in the table below.

Directorate	Actions still open	Red	Red / amber	Amber / green or green
Planning Transport and Environment	15	2	2	11
Housing and Communities	3		2	1
Corporate Governance	3		1	2
Economic Development	8	1	2	5
Education and Lifelong Learning	32	4	12	16
External and grants	3		1	2
Fundamental				
Governance & Legal Services	4			4
Other assurance	5		2	3
Resources	11		1	10
Social Services	14	1	8	5
	98	8	31	59
Schools	28		9	19
TOTAL	126	8	40	78

Appendix F shows the red and red / amber recommendations that have been completed since the last Audit Committee in November 2018.

3.2 Performance and Benchmarking

The Audit team is a member of the Welsh Chief Auditors and Core Cities benchmarking groups for 2018/19. The outputs of the Welsh Chief Auditors Group were reported to the Audit Committee in June 2018 and the Audit Team is awaiting the output from the Core Cities benchmarking group. Discussions have been held with the other Core Cities regarding amending the format of the performance measures collated, but no further information has been received from the Council co-ordinating the indicators.

The Internal Audit team also has internal key performance measures, which are reported on a quarterly basis to Resources management team. The Council's performance targets for 2018/19 audit work and the actual outcome at the end of Q1, Q2 and Q3 are as in the table below:

Performance Indicator	2017/18 Outcome	2018/19 Target	Actual as at end of Q1	Actual as at end of Q2	Actual as at end of Q3
The percentage of audit reports delivered within six weeks	74.6%	78.0%	80%	63%	69%
The average number of audit productive days per employee	143.43	170.00	37.90	68.91	104.59
The average number of finalised audits per FTE (excluding schools' thematic reviews)	6.52	10.00	3.19	5.10	8.18
The percentage of audit recommendations implemented within the agreed timescale	86%	90%	76.92%	55.53%	73.47%
The percentage of the audit plan completed (current plan)	75%	80%	25.32%	35.71%	50.00%
<i>The percentage of the audit plan completed (original plan)</i>	75%	80%	25%	35.26%	49.36%

Following on from the dip in performance in Q2, there has been an improvement against all performance measures in quarter 3, as compared to the previous quarter. Whilst an improvement

is recognised, momentum for delivery needs to continue throughout Q4 to deliver the performance targets set.

The Audit Manager has communicated the expectation for each auditor to take responsibility for delivering their portfolio of audits, and to follow up on the delivery of client recommendations as priority areas.

Audit Plan Delivery

There were 77 reports issued to at least draft report stage at the end of Q3. Although this is below the proportionate target for this point in the year, it is a marginal improvement on the Q3 position in 2017/18. In Q3 there has been a 50% increase in the number of draft reports issued compared to Q2, and this momentum needs to increase further to deliver 80% of the audit plan as targeted.

All audits have been assigned for Q4 and the team is on track to deliver all fundamental audits in the plan. The fundamental audits to be completed in Q4 are Local Housing Allowances, Housing Rents, Creditors 2018/19 in-year testing and Payroll 2018/19 in-year testing.

There are 48 priority audits targeted for delivery in Q4 in order to achieve the 80% delivery of the Audit Plan targeted, of which 28 (58%) had commenced at the end of Q3. These priority audits have been allocated to auditors for delivery by the year end.

Recommendation Progress

The team has given significant attention to following up on the implementation of recommendations due, with priority given to those of a red and red/amber priority rating. The focus has been for management to provide evidence that all red and red / amber recommendations due have either been implemented by the target date, or that they are appropriately communicated through the respective directorate management team, and revised target dates and renewed attention is given to their implementation.

Audit Committee will note the improved position in the appended recommendation reports, as a greater number of recommendations have been implemented than the prior quarter and only a small number of recommendations due require an update. It should be noted that the recommendations in respect of IT have not been closed, as the validation will be achieved through

audit engagements planned for Q4. Audit Committee will note the improved performance measure in respect of ‘the percentage of audit recommendations implemented within the agreed timescale’ at a rate of 73%.

3.3 Processes

The management information available from both SharePoint and DigiGOV has been used to provide performance management information for each auditor, the section as a whole, and the information provided in this report. Each of the performance indicators shown in the table above (for the team as a whole) are given to individual auditors at the end of the quarter, along with the auditor’s individual outcomes. These form part of the discussion with the auditors at the monthly meetings to discuss progress on assignments, with an emphasis on the completion of audit engagements to support the completion of the audit plan.

The table below shows the instances where implementation dates have been revised by audit clients on SharePoint (as at 31.12.18). This reporting mechanism is used to monitor progress and target discussions on the effective management of risk management in relationship management meetings each quarter.

Directorate / Audit Category	Number of recommendations with revised dates	Actions now implemented	Actions still open
Education and Lifelong Learning	51	22	29
Social Services	22	13	9
Resources	8	2	6
Housing and Communities	3		3
Planning Transport and Environment	6	3	3
Economic Development	2	1	1
External and grants	2		2
Fundamental	1	1	
Corporate Governance	2		2
Governance and Legal Services	3		3
Other assurance	8	5	3
	108	47	61
Schools	101	85	16
TOTAL	209	132	77

Appendix G provides more detail on the red and red / amber recommendations with revised action dates, and detail of the amber / green and green recommendations is provided to Audit Committee via a separate route.

4. CONCLUSION

- 4.1 Whilst there has been steady progress through the audit plan, as outlined in section 3.2, and an increase in performance across all indicators this quarter, the momentum for delivery needs to continue throughout the final financial quarter to deliver the performance targets set. Expectations have been reiterated to the Audit team to continue the improvements seen in application of the 'output focussed, quality controlled' ethos to audit delivery, with this being the ongoing attention and focus of monthly monitoring meetings and wider performance management.